

**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
CLERK**

**For The Year Ended
December 31, 2002**



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LETCHER COUNTY CLERK

**For The Year Ended
December 31, 2002**

The Auditor of Public Accounts has completed the Letcher County Clerk's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$6,412 from the prior calendar year, resulting in excess fees of \$26,588 as of December 31, 2002. Revenues decreased by \$190,140 from the prior year and disbursements decreased by \$183,728.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Carroll Smith, Letcher County Judge/Executive
Honorable Winston Meade, Letcher County Clerk
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Letcher County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.



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In accordance with Government Auditing Standards, we have also issued our report dated June 25, 2003, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 25, 2003

LETCHER COUNTY
WINSTON MEADE, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2003

Receipts

State Fees For Services	\$	10,378
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Fiscal Court		6,903
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	676,068
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Usage Tax		1,747,993
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Tangible Personal Property Tax		1,350,366
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Licenses, Taxes, and Fees-

Fish and Game		6,058
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Marriage		9,100
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Deed Transfer Tax		18,147
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Delinquent Tax	362,106	4,169,838
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	20,645
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Real Estate Mortgages		19,071
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Chattel Mortgages and Financing Statements		84,210
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Powers of Attorney		1,191
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All Other Recordings		25,459
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Charges for Other Services-

Candidate Filing Fees		3,310
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Copywork	21,308	175,194
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Other:

Redeposits	\$	1,371
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Overpayments	15,830	17,201
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Interest Earned		2,941
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Miscellaneous		3,114
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Total Receipts	\$	4,385,569
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The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
 WINSTON MEADE, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	543,494	
Usage Tax		1,693,998	
Tangible Personal Property Tax		547,494	\$ 2,784,986

Licenses, Taxes, and Fees-

Fish and Game	\$	5,763	
Delinquent Tax		46,413	
Legal Process Tax		20,747	
Candidate Filing Fees		1,950	74,873

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	145,582	
Delinquent Tax		40,806	
Deed Transfer Tax		17,057	203,445

Payments to Other Districts:

Tangible Personal Property Tax	\$	602,491	
Delinquent Tax		178,765	781,256

Payments to Sheriff 7,953

Payments to County Attorney 55,493

Personnel Services-

Deputies' Salaries	\$	208,596	
Part-Time Salaries		15,943	
Overtime		1,628	
Contracted Services		450	226,617

Employee Benefits-

Employer's Share Social Security	\$	21,824	
Employer's Share Retirement		18,063	
Employer's Paid Health Insurance		16,400	
Other Payroll Disbursements		2,964	59,251

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
 WINSTON MEADE, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements (Continued)

Contracted Services-		
Advertising	\$ 18	
Election	336	
Miscellaneous	<u>251</u>	\$ 605
Materials and Supplies-		
Office Supplies	\$ 17,849	
Preparing Tax Bills	<u>2,862</u>	20,711
Other Charges-		
Microfilming	\$ 20	
Conventions and Travel	2,134	
Dues	1,200	
Postage	5,069	
Utilities	8,414	
Overpayment Refunds	15,723	
Refunds	5,888	
Returned Checks	<u>1,493</u>	39,941
Capital Outlay-		
Office Equipment	\$ 22,541	
Computer Lease	5,675	
Copier Lease	<u>5,328</u>	<u>33,544</u>
Total Disbursements		<u>\$ 4,288,675</u>
Net Receipts		\$ 96,894
Less: Statutory Maximum		<u>66,706</u>
Excess Fees		\$ 30,188
Less: Expense Allowance		<u>3,600</u>
Excess Fees Due County for 2002		\$ 26,588
Payment to County Treasurer - January 13, 2003		<u>20,000</u>
Balance Due at Completion of Audit		<u><u>\$ 6,588</u></u>

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months and 6.34 percent for the last six months of the year.

LETCHER COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2002
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2002, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Leases

The Clerk's office is committed to the following lease agreements as of December 31, 2002:

Item Purchased	Monthly Payment	Term of Agreement	Ending Date	Balance December 31, 2002
Postage Meter	65	48 Months	July-2006	\$ 2,730
Xerox Copier	345	60 Months	February-2004	4,411
CCLIX Software	475	48 Months	June-2003	2,550

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COMMENT AND RECOMMENDATION

LETCHER COUNTY
WINSTON MEADE, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

The Clerk's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating control be implemented to offset this internal control weakness:

- The Clerk should periodically and on a surprise basis compare invoices to payments. The Clerk could document this by initialing the invoices.

County Clerk's Response:

The Clerk has already started doing this.

PRIOR YEAR:

- The County Clerk Should Improve Internal Controls.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Letcher County Clerk for the year ended December 31, 2002, and have issued our report thereon dated June 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Letcher County Clerk's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Letcher County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 25, 2003

